SHARP › ALERT › POISED

Hawk Oil Inc.

1998

ANNUAL REPORT

CORPORATE PROFILE

Hawk Oil Inc. is an emerging junior oil and gas company engaged in the exploration, development and acquisition of oil and natural gas reserves in Western Canada.

Hawk Oil was incorporated as a private company in late 1996. It completed an initial public offering in 1997 and listed its shares for trading on The Alberta Stock Exchange. The Company's Class A shares began trading on the ASE on September 11, 1997 under the symbols HWK.A. The Class B shares began trading on the ASE on January 19, 1998 under the symbol HWK.B.

Hawk maintains a large balanced portfolio of internally generated exploration and development plays. The Company selectively pursues its opportunities by favouring high working interests in prospects that offer low-risk coupled with high netbacks and immediate cash flow. Concurrently, Hawk maintains an inventory of high-risk, high-impact exploration prospects with lower working interests. The Company operates the vast majority of its production and strives to minimize finding and onstream costs.

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ANNUAL MEETING OF SHAREHOLDERS

The Annual General Meeting of Shareholders of Hawk Oil Inc. will be held at 3:30 p.m. on Thursday, June 3, 1999 at Code Hunter Wittmann Barristers & Solicitors, 14th Floor, Scotia Centre, 700-2nd Street SW Calgary, Alberta.

LETTER TO SHAREHOLDERS

Hawk Oil Inc. had an outstanding year in 1998 despite an oil price environment that recorded historical lows. The Company exceeded its year-end production target with a 1998 exit rate of 610 boe per day, a 171-percent increase over the 1997 exit rate of 225 boe per day. Significant reserve and production additions resulted from an active natural gas well drilling program, the majority of which occurred on an extensive 195-section tract of land acquired by Hawk that will be further developed during 1999.

Hawk has established a consistent record of success in the Company's brief 16-month history. Our accomplishments to date include:

- Drilling 23 (15.5 net) wells, 65 percent of which were classified as exploration, resulting in 17 (12.1 net) producers for an overall success rate of 78 percent;
- Prudently invested $8.9 million on drilling, land acquisition, seismic and facilities which resulted in:
  - Production of 610 boe per day
  - Proved reserves of 1,645 mboe at a very competitive finding and development cost of $5.41 per boe
  - Proved plus probable reserves of 3,136 mboe at a finding and development cost of $2.84 per boe
  - 14,195 acres (9,300 net) of undeveloped land
  - Farmed into 125,000 net acres of undeveloped land with access to 1,100 kilometres of seismic data
- Creating a large, balanced inventory of oil and natural gas prospects, which are ready to be drilled.

GROWTH STRATEGY

Hawk was created as an oil and natural gas exploration and production company. Central to the Company's strategy is profitable growth on a per share basis by concentrating on near-term cash flow. Hawk accomplishes this by exploring in low-cost areas characterized by year-round access, available existing infrastructure, moderate drilling depths and affordable land costs. 1

Hawk initiated this strategy in the fall of 1997 by drilling oil wells in West Central and Southeast Saskatchewan, which offered immediate cash flow with high netbacks. However, with the decline of oil prices in early 1998, the Company used its broad skill set to quickly change the direction of its exploration program to natural gas, focused in the West Edmonton and Vermilion areas of Central Alberta. Since the switch to natural gas in early 1998, the Company has drilled seven consecutive successful gas wells.

Another aspect of Hawk's strategy is to limit risk exposure. Hawk believes that it is prudent for a start-up company to pursue

moderate-risk-moderate-reward prospects (single and double base hits) as opposed to high-risk-high-reward prospects (home runs). Accordingly, the Company has concentrated on lower-risk areas, resulting in an excellent drilling success rate accompanied by immediate cash flow. As the Company grows, we will increase our exposure to higher-risk-higher-reward prospects. To that end, Hawk has defined numerous high-impact locations that will be drilled once the Company achieves the appropriate size to support higher-risk exposure.

As drilling prospects are developed, Hawk's level of participation in any given play continues to be determined by cost and risk analysis. The Company strives for operatorship and a high working interest in any development or moderate-risk exploration project in order to maintain control over the technical aspects, capital and operating costs. Hawk operates virtually all of its production at an average working interest of approximately 80 percent. On deeper, higher-risk exploration wells, the Company limits its working interest to between 25 and 50 percent.

In 1998 Hawk progressed from evaluating and drilling small development prospects to applying its geological concepts to larger tracts of land. At Vermilion, Alberta, the Company acquired 195 sections of freehold land through a multi-well farm-in and drilled five successful 100-percent working interest natural gas wells in November and December, 1998. Hawk will drill further wells at Vermilion in 1999.

Notwithstanding Hawk's exploration efforts to date, we continue to recognize the importance of a balanced portfolio of opportunities. Part of this balance includes the numerous drillable oil prospects that Hawk has stockpiled. These include a variety of light oil opportunities ranging from horizontal infill and step-out drilling at Glen Ewen to exploratory drilling at Bromhead and Montmartre, Saskatchewan. The Company also holds numerous infill, multi-zone, heavy oil locations at Epping. However, these projects will only proceed when justified by higher prices. Additionally, we are constantly evaluating acquisitions as well as farm-in opportunities where vertical infill, horizontal infill, step-out or outpost drilling is required to further exploit existing pools or to find new ones.

Undeveloped Land (net acres)

Hawk continues to keep both operating costs and overhead to an absolute minimum. In 1998 Hawk's operating and overhead costs (net of interest income) were $6.06 per boe and $1.55 per boe respectively. The Company expects operating costs to be further reduced in 1999 as a large portion of our production has shifted from oil to lower-cost natural gas production.

1999 INDUSTRY OUTLOOK

The short-term outlook for the oil and natural gas industry remains relatively poor. In 1998 oil prices were at their lowest levels since 1986 and there remains considerable uncertainty about the direction of oil prices. Equity markets for this industry are soft and a large portion of the industry is operating at or near the limit of their bank lines. Most companies are limited to a capital program equal to their cash flow and will show little or no growth in 1999.

The current low oil price, which averaged US$14.38 for West Texas Intermediate in 1998, is caused by a world-wide surplus of oil inventory coupled with low Asian demand. We anticipate that oil prices will slowly recover in 1999, assuming that world inventories are reduced and oil supply declines due to a lack of capital investment.

The one bright spot in the industry is the price of natural gas, which has remained strong for a number of reasons. First, the addition of new pipeline capacity to the United States has reduced the differential between the NYMEX price and the price that producers receive in Alberta. Second, the low Canadian dollar has helped to create a strong demand for Canadian natural gas. Finally, the low oil price has caused a significant drop in overall drilling activity, affecting the amount of oil and natural gas that is available on the supply side.

Another positive impact on producers has been the significant reduction in the cost of acquisitions and services. The low oil price has reduced the level of capital investment in

our industry and companies are now paying more reasonable prices for land and drilling rigs. Governments witnessed a 50-percent drop in land bonus payments in 1998 compared to 1997 and this trend is expected to continue during 1999. At the same time, Hawk's drilling costs were reduced by approximately 30 percent. One effect of the lower cost structure is an improved return on capital employed.

1999 OUTLOOK

Hawk believes that its operating strategy, land base, financial position, strength of management team and drilling results to date form a strong foundation for further successes and growth in production, reserves and cash flow during 1999.

In 1999 Hawk will focus the bulk of its capital spending and activities on natural gas prospects in Alberta. The Company has a capital budget of $3.5 million for exploration and development drilling, which will be funded primarily from cash flow. During the year, Hawk plans to drill eight to 10 high working-interest exploration and development wells on internally generated prospects.

Excluding acquisitions, Hawk is forecasting a year-end exit rate of 815 boe per day, 34 percent higher than our 1998 exit rate, and cash flow of $3 million or $0.56 per Class A share, based on a price forecast of US $14 WTI and $2.25 per mcf. We are currently evaluating both larger property and corporate acquisitions that fit our corporate strategy. To that end, Hawk is aggressively searching for operated, high-interest, under-developed properties that can be acquired at a reasonable cost.

Hawk is well positioned to take advantage of the many excellent opportunities available to grow the Company. We have a strong balance sheet with no debt or working capital deficiency. We maintain a low cost structure and we are leveraged heavily to natural gas. If equity markets improve for oil and natural gas producers, Hawk will also consider raising additional capital to fund the drilling of its growing inventory of exploration and development opportunities.

ACKNOWLEDGMENTS

I would like to take this opportunity to thank our Board of Directors for their wise counsel and support, our shareholders for their loyalty and patience and our talented and dedicated technical team for the outstanding results they have achieved in 1998.

On behalf of the Board of Directors,

S. Fitzmaurice

Stephen J. Fitzmaurice

PRESIDENT AND CHIEF EXECUTIVE OFFICER
CHAIRMAN OF THE BOARD

March 22, 1999

OPERATIONS REVIEW

OVERVIEW OF RESULTS

After listing on The Alberta Stock Exchange in September 1997 Hawk Oil evolved quickly from a start-up company into an active exploration and development company. Amid relatively high oil prices in 1997, the Company drilled 14 (7.7 net) oil wells in Saskatchewan. In 1998 Hawk drilled one (1.0 net) horizontal light oil well in Queensdale, and one (0.5 net) dry hole in Benson, Saskatchewan and then, as oil prices continued to weaken, changed its focus to natural gas. In the fourth quarter of 1998, the Company drilled one (0.25 net) natural gas well in Bear Flat, British Columbia, one (1.0 net) natural gas well in the West Edmonton area of Alberta, and five (5.0 net) natural gas wells on its Vermilion block in Alberta. Of the 7.75 net wells drilled in 1998, 74 percent of which were classified as exploration wells, Hawk enjoyed a success rate of 94 percent. With the exception of Bear Flat and Benson, all wells were operated by Hawk and are currently tied-in and producing.

Since most of the Company's drilling took place in December 1998, the impact on production is evident in our exit-rate figures. The Company exited 1998 with production of 610 boe per day, compared to 225 bbls per day in 1997. Average production increased from 64 bbls per day in 1997 to 213 boe per day in 1998.

In January 1999 Hawk drilled a successful natural gas well (1.0 net) at Hines, Alberta which has been completed in two zones and is currently being tied-in. This well is expected to add 750 mcf to one mmcf per day to Hawk's 1999 production.

Hawk's reserves, not including the Hines discovery, total 1.6 million boe on a proved basis and 2.3 million boe on a proved plus risked probable basis as of December 31, 1998. This is a 48-percent increase in proved reserves and a 34-percent increase in proved plus risked probable reserves over 1997 and represents an 655-percent replacement of the Company's 1998 production on a proved reserves basis. Hawk's finding and development cost since the Company's start up in September, 1997 is $5.41 per boe for proved reserves and $3.72 per boe for proved plus risked probable reserves.

Proved Plus Risked Probable Reserves (mboe)

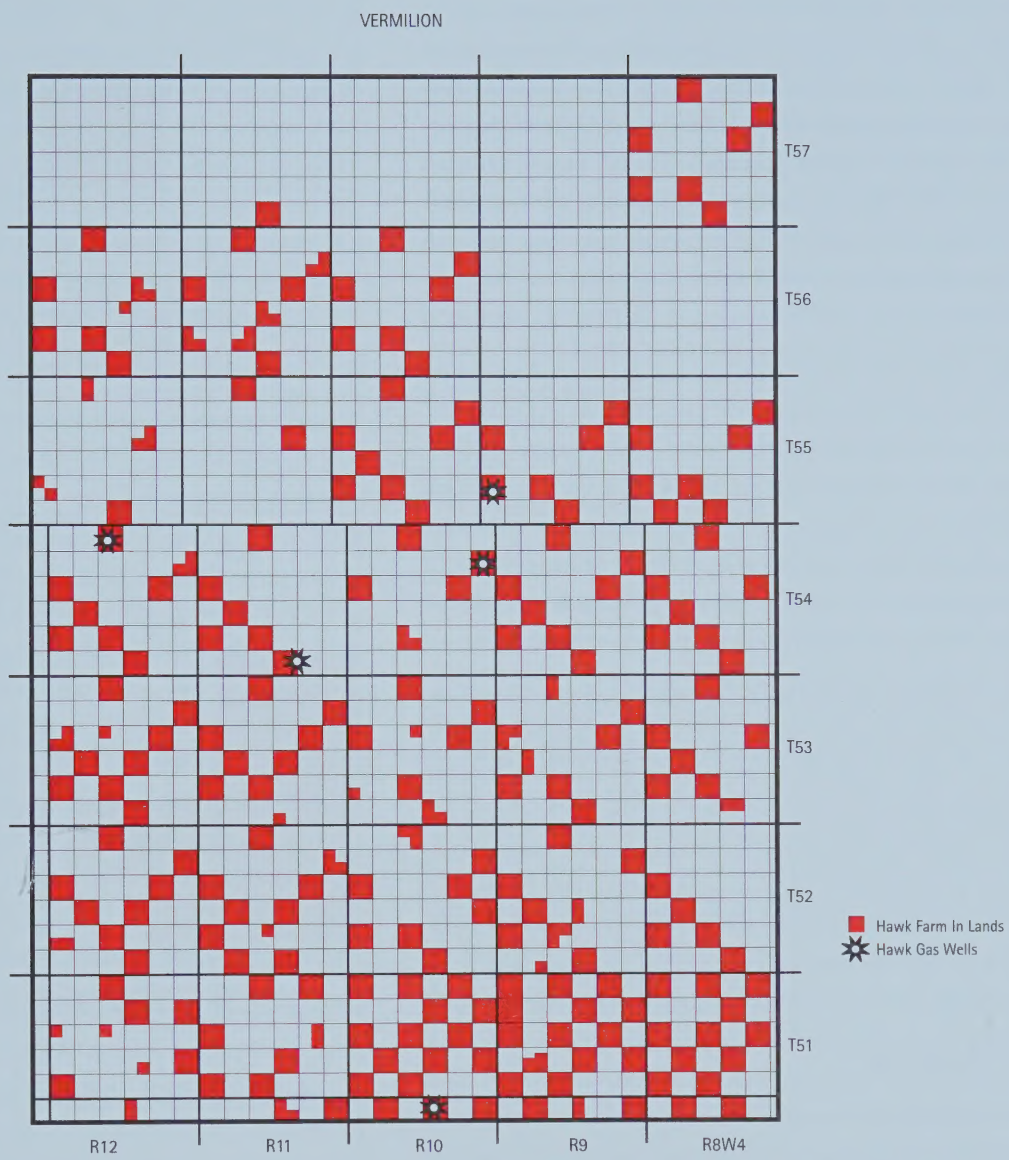
In 1998 Hawk increased its land position to 21,750 (14,950 net) from 10,000 gross acres (7,000 net) in 1997, with most of the inventory being undeveloped. As well, Hawk acquired an interest (100 percent before payout and 50 percent after payout) from a major company in a large block of freehold land, comprising 125,000 acres in the Vermilion area of Central Alberta. Hawk pays no royalties on this block, which provides exceptional netbacks to the Company.

1998 GROWTH STRATEGIES

Hawk's success in 1998 forms the basis for continued growth in 1999 and beyond and was achieved through strict adherence to our growth strategy. The key elements of this strategy include:

> Concentrating on projects which generate near-term cash flow;

> Exploring in areas with low-cost drilling and infrastructure;



> Exploring for pools that can be brought onstream quickly;

> Maintaining control over capital and operating costs;

> Concentrating on areas that are well understood by our technical team;

> Pursuing internally-generated prospects using sophisticated geophysical technology;

> Maintaining high working interests and wherever possible, operatorship;

> Expanding our land base within our core areas; and

> Maintaining a large, balanced inventory of exploration, development and acquisition opportunities.

KEY PROPERTIES

VERMILION

In July 1998 Hawk acquired an interest in a 125,000-acre block of land in the Vermilion, Alberta area from a major company. Under the first phase of this farm-in, Hawk committed to drill five wells to hold all the lands until December 31, 1998. When one-half of all costs incurred with respect to

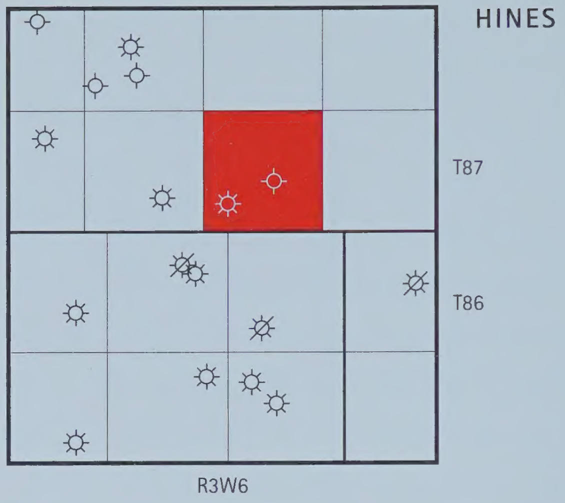
drilling these wells, including seismic, drilling, tie-in and abandonment costs, are recovered, Hawk's 100-percent interest reverts to 50 percent. In the second phase of the project in 1999 Hawk committed to drilling another four wells, subject to the same terms as the initial drilling program. The Company has the right to continue drilling wells each year in order to hold all 125,000 acres indefinitely. Notably, the Company pays neither lessor nor over-riding royalties on this land and has continual access to 1,100 kilometres of seismic data over the block.

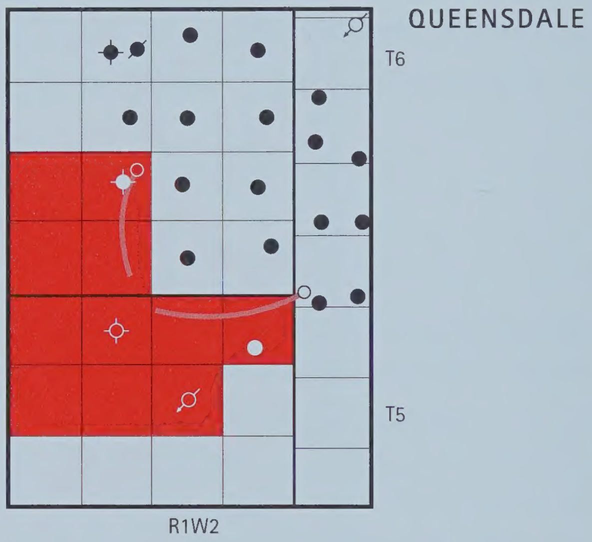
In December 1998 Hawk completed the first phase of its Vermilion farm-in by drilling five successful natural gas wells. These results exceeded Hawk's internal expectations and confirmed the Company's technical models in the area. Hawk encountered natural gas in the Viking, Colony and Wabiskaw formations, with production from the wells ranging from 250 mcf per day to 1.5 mmcf per day. Currently, Hawk is producing 3.8 mmcf per day from its Vermilion wells.

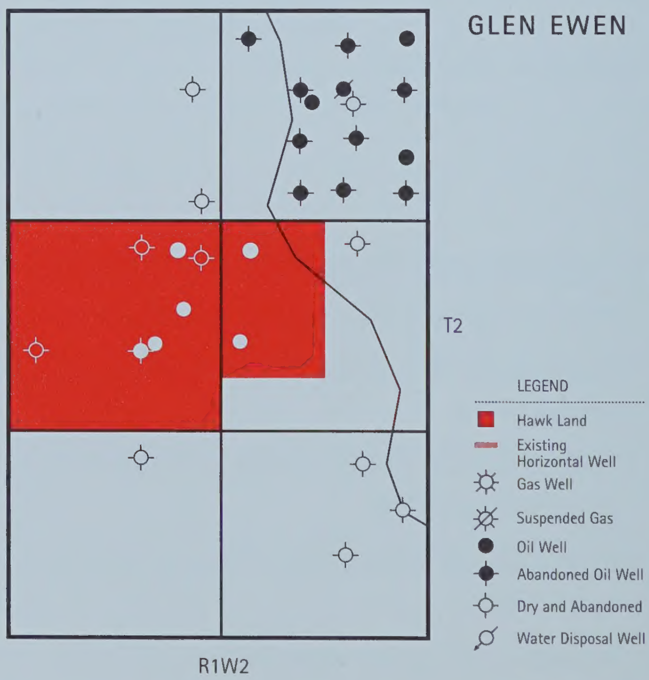
Hawk is achieving excellent netbacks from the Vermilion property exceeding $1.80 per mcf, as a result of favourable farm-in terms, inexpensive operating costs and high natural gas prices. Natural gas processing facilities on this block are under utilized and the extensive network of pipelines has kept Hawk's average tie-in distance to less than one kilometre. Hawk is confident this area will continue to provide superb growth to the Company by virtue of the excellent land position and the affordable drilling and operating costs.

WEST EDMONTON

In the West Edmonton area Hawk is in the early stages of establishing a land position. Geological mapping has turned up numerous prospects in a number of Cretaceous zones. Hawk has committed to drill one (.75 net) multi-zone well targeting natural gas in the Glenevis area during the second quarter. Two to three additional wells will be drilled later in the year.







HINES

In 1998 Hawk expanded its search for natural gas to the Peace River Arch area where the Company acquired 640 acres at a Crown land sale. A 100-percent Hawk well was drilled on this land in January 1999 and is currently being tied-in after encountering natural gas in six different Cretaceous sands. The well is expected to begin production in the second quarter of 1999 at one mmcf per day and to stabilize at 750 mcf per day. The Company is currently evaluating other opportunities in this natural gas-prone, long-reserve-life area.

SASKATCHEWAN PROPERTIES

Hawk currently produces 180 bbls of oil per day from its Saskatchewan lands. This consists of 70 percent light oil, primarily from the Queensdale and Glen Ewen areas in Southeastern Saskatchewan, and 30 percent heavy oil from the Epping area. At Queensdale, the Company holds a 100-percent working interest in 400 acres, two horizontal oil wells and one vertical oil well. Operating costs are relatively low, averaging less than $4.86 per bbl.

At Glen Ewen, which is operated by Hawk, the Company has an average 71-percent working interest in 880 acres, four producing light oil wells, a battery and a water disposal well. At least one dual-legged horizontal well will be drilled on the property when the price of light oil improves and additional seismic will be acquired to define follow-up wells. Optimization of producing vertical oil wells is currently underway.

Hawk holds a 100-percent working interest in 696 acres and three heavy oil wells at Epping, near Lloydminster, Saskatchewan. Two wells are currently producing 55 bbls per day, while the third well is currently shut-in awaiting oil price recovery. Production in this region is associated with stacked sands of the Mannville Group which display excellent reservoir characteristics. Three high-resolution seismic lines acquired on this land have identified multiple drilling locations in up to five different Mannville zones. Significant oil reserves have been discovered in each of these zones as well as natural gas reserves in the Colony and Lloydminster Sands. Future plans include a three-dimensional seismic survey to best define more than a dozen multi-zone development locations. However, a pessimistic heavy oil price outlook has delayed all further development on this valuable property until commodity prices justify this expenditure.

EXPLORATION REVIEW

Low oil prices throughout 1998 necessitated changing the focus of our exploration program from oil to natural gas. As a result of Hawk's extensive technical experience, the Company quickly established core areas for natural gas using the same criteria we applied to our search for oil core areas. These included year-round access for immediate tie-in of successful wells, as well as relatively low-risk and low-cost prospects. As a result of this change in focus, Hawk was generating 70 percent of its daily revenues from natural gas by the end of 1998, compared to a total dependence on oil at the beginning of the year.

Hawk intends to employ these same criteria to significantly grow its natural gas production in 1999, with the majority of capital allocated to drilling in the Company's two core natural gas areas. In the large Vermilion block where Hawk holds 195 sections, the Company continues to evaluate 1,100 kilometres of farmor seismic data, as well as new data shot by Hawk, with the intention of drilling four to six wells in 1999. The West Edmonton region holds numerous opportunities and will see the drilling of three to four wells in 1999.

Hawk's small size and varied technical expertise allows us to move quickly when non-core opportunities become available. The Company recently developed such a prospect in the Hines area of Northern Alberta and during the first quarter drilled a shallow, low-risk, multi-zone natural gas well capable of producing one to 1.5 mmcf per day.

The Company will continue to pursue opportunities with appropriate risk which have the potential to significantly impact our production, cash flow and net earnings. Given the early success Hawk has enjoyed, the Company intends to add prospects to its portfolio in the near future that yield longer life reserves. Very little capital will be directed to the numerous oil opportunities in Hawk's inventory during the coming year, with the possible exception of minor seismic costs.

Hawk is now in the enviable position of having grown from a start-up venture to a debt-free producer with significant cash flow. Our strong financial situation will allow the Company to take advantage of the numerous acquisition and drilling opportunities that have arisen as a result of the prolonged low oil price. Accordingly, we expect 1999 will be an exciting year for Hawk.

DRILLING SUMMARY

During 1998 Hawk participated in the drilling of nine (7.75 net) wells, 74 percent of which were classified as exploration, resulting in eight (7.25 net) producers for an overall success rate of 94 percent. Hawk drilled and now operates seven of the nine wells (78percent).

DRILLING ACTIVITY BY AREA

Property	*1998 Wells Drilled*
Southeast Saskatchewan	2
West Edmonton, Alberta	1
Vermilion, Alberta	5
Bear Flat, British Columbia	1
Total	**9**

DRILLING ACTIVITY (NUMBER OF WELLS)

	1998		*1997*	
Year ended December 31	*Gross*	*Net*	*Gross*	*Net*
Oil	1.0	1.0	9.0	4.9
Natural gas	7.0	6.3	0	0
Dry	1.0	0.5	5.0	2.8
Total	**9.0**	**7.8**	**14.0**	**7.7**
Exploratory	7.0	5.8	7.0	4.3
Development	2.0	2.0	7.0	3.4
Average working interest (%)		86		55

LAND HOLDINGS

As a junior company, Hawk recognizes the importance of a large undeveloped land base and has continued to accumulate land in strategic areas. Hawk currently holds approximately 21,750 acres (14,950 net) of land, of which 9,300 net acres are undeveloped.

LAND HOLDINGS

	1998			1997		
(Acres)	*Gross*	*Net*	*WI%*	*Gross*	*Net*	*WI%*
Developed	7,555	5,650	75	700	225	32
Undeveloped	14,195	9,300	66	9,300	6,775	73
*Total	21,750	14,950	69	10,000	7,000	70

* This land does not include Hawk's farm-in block in Vermilion, Alberta comprising approximately 125,000 undeveloped acre

PRODUCTION SUMMARY

As a result of its exploration activity during 1998, Hawk attained a daily production rate of 610 boe per day at year end. Approximately 70 percent of the year-end production was natural gas. However, the Company's gas drilling activity was concentrated during the last two months of 1998 which resulted in four natural gas wells being tied-in during late December 1998. An additional two natural gas wells were tied-in during early January 1999. Hawk's 1998 yearly average production was 213 boe per day.

PRODUCTION SUMMARY

Property	*Working Interest (%)*	*Gross Year End Production (boepd)*	*Net Year End Production (boepd)*
Epping oil	100	57	57
Queensdale oil	100	127	127
Glen Ewen oil	46	24	11
Vermilion gas	100	411	411
Other	3	123	4
Total	82	742	610

RESERVE SUMMARY

Hawk's reserves have been evaluated effective December 31, 1998 by the independent engineering firm of Outtrim Szabo Associates "Outtrim". The tables on the following page summarize the findings of the Outtrim report on an escalated price basis.

The price forecast used by Outtrim is presented below:

PRICE FORECASTS

	WTI at Cushing Oklahoma $US/bbl	Oil Light Crude at Edmonton $Cdn/bbl	Natural Gas TCGSL Average Field Price $Cdn/mmbtu
1999	14.25	20.68	2.15
2000	16.32	23.42	2.31
2001	17.69	25.03	2.43
2002	19.10	26.67	2.55

FINDING AND DEVELOPMENT COSTS

	1998	1997	97-98
Capital expenditures ($ thousands)	5,102	3,800	8,902
Proved reserve additions (mboe) *	589	1,056	1,645
Proved finding and development costs ($/boe)	8.67	3.60	5.41
Proved + probable reserve additions*	748	2,388	3,136
Proved + probable finding and development costs	6.83	1.59	2.84

* includes discoveries and purchases less revisions

In 1997 Hawk Oil was very successful at adding new reserves with a proved finding and development cost of $3.60 per boe. The majority of Hawk's 1997 drilling took place in the month of December, accordingly the facilities required to place these reserves on production occurred during 1998. In 1998 Hawk Oil was equally successful at adding new reserves with a net drilling success rate of 94 percent and a proved drilling (exclusive of revisions) finding and development cost of $6.11 per boe. However, the low oil price environment has caused a negative revision on Hawk's heavy oil reserves, as reserves which were deemed to be economic one year ago are not viable with the current price forecast. With the negative revision, Hawk Oil's proved finding and development cost increased to $8.67 per boe in 1998.

RESERVE SUMMARY

	Remaining Reserves Crude Oil mbbls	Remaining Reserves Natural Gas mmcf	Net Present Value Before Income Tax Discounted 0% M$	10% M$	15% M$	20% M$
Total proven	908	6,592	18,838	11,231	9,338	8,009
Probable	1,092	3,983	18,511	6,415	4,412	3,249
Proved + probable	2,000	10,575	37,349	17,646	13,750	11,258
Proved +1/2 probable	1,454	8,584	28,094	14,439	11,544	9,634

RESERVE RECONCILIATION

	Oil (mbls) Proven	Oil (mbls) Probable	Oil (mbls) Total	Natural Gas (mmcf) Proven	Natural Gas (mmcf) Probable	Natural Gas (mmcf) Total
December 31, 1997	1,053	1,222	2,275	31	1,101	1,132
Discoveries and extensions	151	45	196	6,586	2,882	9,468
Purchases	32	0	32	0	0	0
Production	(76)	0	(76)	(25)	0	(25)
Revisions of prior estimates	(252)	(175)	(427)	0	0	0
December 31, 1998	908	1,092	2,000	6,592	3,983	10,575

MANAGEMENT'S DISCUSSION AND ANALYSIS

PRIVATE PLACEMENT OFFERING

In December 1998 Hawk Oil Inc. closed a private placement for the issue of 1,140,000 flow-through Class A Shares at a price of $1.00 per share for gross proceeds of $1,140,000. Subscriptions from two EnerVest FTS Limited Partnership Funds accounted for 730,000 shares of the offering and the balance was raised by friends and business associates.

FINANCIAL SUMMARY

The operating results for the 1998 calendar year were as follows:

OPERATING INCOME ($)

Year ended December 31	*1998*	*1997 (3 months)*
Petroleum and natural gas revenues	1,329,975	123,733
Royalties	230,697	27,056
Production expenses	471,956	38,482
Operating income	627,322	58,195
Oil/natural gas revenue ratio	97/3	100/0
Daily production volume boe	213	64
Sales price	17.09	21.11
Royalties	2.96	4.62
Production expenses	6.06	6.56
Netback ($/boe)	8.07	9.93

With the exception of the oil price, all other categories showed improvement. Hawk's production expense decreased in 1998 and this trend is expected to continue as Hawk continues to pursue low-cost natural gas development. Royalty payments were down, largely due to the low oil price environment. Production increased due to drilling success.

CAPITAL EXPENDITURES

($ thousands)	*1998*	*1997*
Exploration and development	3,631	2,926
Facilities	881	452
Land	586	410
Other	4	12
Total capital expenditures	5,102	3,800

NET ASSET VALUE

As at December 31, 1998, Hawk's net asset value (basic) was $2.26 per Class A share. This is based on the independent evaluation of the Company's proved and half probable reserves, discounted at 15 percent.

		Dec. 31, 1998		Dec. 31, 1997
Proved plus 1/2 probable reserves discounted at 15% before tax	$	11,544,000	$	6,299,000
Undeveloped acreage ($50/acre)	$	465,000	$	325,000
Working capital	$	16,750	$	3,478,707
Net asset value (basic)	$	12,025,750	$	10,102,707
Outstanding A shares		5,322,400		4,182,400
Net asset value (basic) per Class A share*	$	2.26	$	2.42
Proceeds from the exercise of stock options and warrants	$	362,080	$	841,080
Net asset value (fully diluted)	$	12,387,830	$	10,943,787
Net asset value (fully diluted) per Class A share*	$	2.13	$	2.16

*without conversion of Class B shares

This NAV does not include any value associated with the right to drill and explore on 125,000 net acres of undeveloped land in the Vermilion area.

GENERAL AND ADMINISTRATIVE EXPENSES

During 1998 Hawk had general and administrative expenses, net of interest income, of $120,250 or $1.55 per boe.

DEPLETION AND AMORTIZATION

Depletion and Amortization

	1998		1997	
	$	$/boe	$	$/bbl
Depletion and amortization	379,925	4.88	5,858	1.00
Site restoration	9,644	0.12	85	.01
Total	389,569	5.00	5,943	1.01

WORKING CAPITAL AND CAPITAL REQUIREMENTS

At December 31, 1998 Hawk had working capital of $16,750. Hawk will fund the vast majority of its 1999 $3.5-million capital program through internally generated cash flow. The Company has no immediate plans to raise additional funds through the equity markets. However, if equity markets for the energy sector improve, Hawk may raise additional capital through the sale of shares.

DEBT

Effective March 31, 1999, the Company established a $4.9-million credit facility with a Canadian Chartered bank, repayable on demand and bearing interest at an annual rate of prime plus one half percent. As of December 31, 1998 the Company had no debt.

YEAR 2000

A Year 2000 problem can arise from computer systems misinterpreting the December 31, 1999 change of date to January 1, 2000. Hawk currently uses no internal computer systems or applications that could misinterpret this critical change of date. Our production accounting and land systems are manual, but if we should convert to an automated system, we will ensure that this issue is resolved before they are installed. Hawk has attempted to ensure that computer systems and applications being used by our suppliers are Year 2000 compliant. Additionally, our field operators, transportation services and oil and natural gas marketers have given us assurances that they are now compliant or that they will be compliant prior to December 31, 1999.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF HAWK OIL INC.

We have audited the balance sheets of Hawk Oil Inc. as at December 31, 1998 and 1997 and the statements of operations and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and the changes in financial position years then ended in accordance with generally accepted accounting principles.

PricewaterhouseCoopers LLP

CHARTERED ACCOUNTANTS   Calgary, Alberta, March 22, 1999

BALANCE SHEET

As at December 31	*1998*	*1997*
ASSETS		
Current		
Cash and short term deposits	$ 1,428,423	$ 4,512,745
Accounts receivable	347,086	464,429
Prepaid expenses	14,194	9,600
	1,789,703	4,986,774
Capital assets (Note 3)	5,935,144	2,686,468
	$ 7,724,847	$ 7,673,242
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 1,772,953	$ 1,508,067
Provision for site restoration	9,729	85
	1,782,682	1,508,152
Contingency (Note 7)		
Shareholders' equity		
Share capital (Note 4)	5,917,718	6,156,281
Retained earnings	24,447	8,809
	5,942,165	6,165,090
	$ 7,724,847	$ 7,673,242

Approved on behalf of the Board:

M. Yeadon   S. Fitzmaurice

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For The Years Ended December 31		*1998*		*1997*
REVENUE				
Petroleum and natural gas sales, net of royalties	$	1,099,278	$	96,677
Interest income		105,122		49,169
		1,204,400		145,846
EXPENSES				
General and administrative		225,372		76,320
Operating		471,956		38,482
Depletion and amortization		389,569		5,943
		1,086,897		120,745
Net income before provision for income taxes		117,503		25,101
Deferred income taxes (Note 5)		(101,865)		(16,292)
Net income		15,638		8,809
Retained earnings, beginning of year		8,809		-
Retained earnings, end of year	$	24,447	$	8,809
Basic and fully diluted net income per share	$	0.00	$	0.00

STATEMENT OF CHANGES IN FINANCIAL POSITION

For The Years Ended December 31		*1998*		*1997*
OPERATING ACTIVITIES				
Net income	$	15,638	$	8,809
Add items not affecting cash				
Depletion and amortization		389,569		5,943
Deferred income taxes		101,865		16,292
		507,072		31,044
Net change in non-cash working capital		337,635		1,034,038
		884,707		1,065,082
FINANCING ACTIVITIES				
Issuance of share capital		1,140,000		7,964,000
Issuance costs		(7,300)		(716,823)
		1,132,700		7,247,177
INVESTING ACTIVITIES				
Capital expenditures		(5,101,729)		(3,799,514)
Increase (decrease) in cash		(3,084,322)		4,512,745
Cash and short-term deposits, beginning of year		4,512,745		-
Cash and short-term deposits, end of year	$	1,428,423	$	4,512,745
Basic cash flow per share	$	0.12	$	0.01
Fully diluted cash flow per share	$	0.11	$	0.01

NOTES TO FINANCIAL STATEMENTS

1. INCORPORATION

The Company was incorporated under the laws of the Province of Alberta by a Certificate of Incorporation dated November 18, 1996. The Company was in the preproduction stage of development until September 30, 1997 after which the Company commenced producing commercial quantities of oil. Consequently, all preproduction income and expenses up to September 30, 1997 have been capitalized. The Statement of Operations and Retained Earnings for 1997 covers the period October 1, 1997 to December 31, 1997.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada. The more significant of these accounting policies are the following:

A) PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

The Company follows the full cost method of accounting in accordance with the guideline issued by the Canadian Institute of Chartered Accountants whereby all costs associated with the exploration for and development of oil and natural gas reserves are capitalized into a single Canadian cost centre and charged against earnings as set out below. Such costs include land acquisition, geological and geophysical, carrying charges of non-producing properties and costs of drilling both productive and non-productive wells and related overhead charges.

Gains or losses are not recognized upon disposition of oil and natural gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20% or more.

Depletion is provided on costs accumulated in producing cost centres using the unit of production method. For purposes of the depletion calculation, gross proved oil and natural gas reserves, as determined by outside consultants, are converted to a common unit of measure on the basis of their approximate energy content.

The Company periodically reviews the costs associated with unproved properties and preproduction stage cost centres to determine whether they are likely to be recovered. When costs are not likely to be recovered, an impairment allowance is made.

The net carrying costs of the Company's oil and natural gas properties in producing cost centres is limited to an estimated recoverable amount. This amount is the aggregate of future net revenues from proved reserves and the costs of undeveloped properties, net of impairment allowances, less future general and administrative costs, financing costs, future site restoration costs and income taxes. Future net revenues have been calculated using prices in effect at the Company's year end without escalation or discounting.

B) JOINT VENTURE ACCOUNTING

Substantially all of the Company's petroleum and natural gas exploration and production activities are conducted jointly with others and, accordingly, the accounts reflect only the Company's proportionate interest in such activities.

C) CAPITAL ASSETS

Capital assets are recorded at cost. Amortization is provided at the following rates and methods:

Furniture and fixtures	20% declining balance
Computer equipment	20% declining balance
Office equipment	20% declining balance

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D) FUTURE REMOVAL AND SITE RESTORATION COSTS

Estimated future removal and site restoration costs are provided for over the life of the proven reserves on a unit-of-production basis. Costs are estimated by management in consultation with engineers based on current regulations, costs, technology and industry standards. The annual charge is included in depletion and amortization expense and actual future removal and site restoration expenditures are charged to the accumulated provision account as incurred.

E) FLOW-THROUGH SHARES

The deductions for income tax purposes of resource expenditures related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Petroleum and natural gas properties and equipment and share capital are reduced by the estimated income taxes related to the renounced income tax deductions when the expenditures are incurred.

F) PER SHARE DATA

Basic per share data is based upon the weighted average number of common shares outstanding during the period (1998 - 4,182,400; 1997- 2,427,965). Fully diluted per share data is based upon the weighted average number of common shares outstanding during the period after giving effect to the exercise of the share options and broker warrants (1998 - 4,683,680; 1997 - 2,427,965). For purposes of calculating per share data, the Class B shares have not been converted into Class A shares.

3. CAPITAL ASSETS

	1998			*1997*
	Cost	*Accumulated Depletion and Amortization*	*Net Book Value*	*Net Book Value*
Petroleum and natural gas properties and equipment	$ 6,304,932	$ 380,619	$ 5,924,313	$ 2,676,643
Furniture and fixtures	3,850	1,163	2,687	1,964
Computer equipment	11,640	3,819	7,821	7,457
Office equipment	505	182	323	404
	$ 6,320,927	$ 385,783	$ 5,935,144	$ 2,686,468

During 1998, the Company incurred $5,098,012 (1997 - $3,787,233) of capital expenditures related to petroleum and natural gas properties and equipment. This total has been adjusted by the tax effect of flow-through expenditures renounced to Class B shareholders in the amount of $1,473,128 (1997 - $1,107,188).

During 1998, the Company capitalized $219,270 (1997 - nil) in overhead related costs to petroleum and natural gas properties and equipment.

Costs associated with unproven properties excluded from costs subject to depletion for 1998 totalled $119,698 (1997 - $153,158).

4. SHARE CAPITAL

A) AUTHORIZED:

Unlimited number of Class A voting shares

Unlimited number of Class B subordinated voting shares

The Class B shares are convertible into Class A shares at a date to be selected by the issuer, between June 30, 2000 and June 30, 2002 and at the option of the Class B shareholder between July 1, 2002 and August 31, 2002. Any Class B shares outstanding on August 31, 2002 shall be automatically converted into Class A shares. The fraction of a Class A share obtained upon conversion of each Class B share will be equal to $10.00 divided by the greater of $1.00 and the current market price of a Class A share.

B) ISSUED:

Class A shares	*Number of Shares*	*Amount*
Issued for cash to founders	1,500,000	$ 300,000
Issued for cash pursuant to a prospectus dated June 24, 1997		
To directors	19,250	3,850
Others	2,663,150	532,630
Share issue costs	-	(75,212)
Balance Class A shares, December 31, 1997	4,182,400	761,268
Obligation to issue Class A shares (Note 4c)	1,140,000	1,132,700
Balance Class A shares, December 31, 1998	5,322,400	1,893,968
Class B shares		
Issued for cash pursuant to a prospectus dated June 24, 1997		
To directors	5,115	51,150
Others	707,637	7,076,370
Tax effect of flow through	-	(1,107,188)
Share issue costs (net of deferred tax)	-	(625,319)
Balance Class B shares, December 31, 1997	712,752	5,395,013
Tax effect of flow through	-	(1,473,128)
Deferred income taxes	-	101,865
Balance Class B shares, December 31, 1998	712,752	4,023,750
Total share capital, December 31, 1997	-	**$ 6,156,281**
Total share capital, December 31, 1998	-	**$ 5,917,718**

During 1998, the Company incurred qualifying expenditures totalling $3,325,345 (1997 - $2,499,295).

4. SHARE CAPITAL (CONTINUED)

B) ISSUED (CONTINUED):

In 1999, the Company intends to incur $1,302,880 of qualifying expenditures associated with the flow-through shares issued in the June 24, 1997 prospectus and $1,140,000 associated with the December 1998 private placement outlined in Note 4c. As a result of incurring these expenditures and renouncing them to the flow through share subscribers, petroleum and natural gas properties, Class A share capital and Class B share capital will be reduced by the tax effect of flow-through renunciation in the amount of $1,082,196, $505,020 and $577,176 respectively.

C) OBLIGATION TO ISSUE SHARE CAPITAL

Pursuant to a private placement in December 1998, the Company received $1,140,000 for subscriptions of 1,140,000 Class A flow through shares. Subsequent to December 31, 1998, the Company issued 1,140,000 Class A flow through shares for no additional consideration.

For financial statement presentation purposes, commissions of $7,300 have been netted against the gross proceeds of the private placement.

D) SHARE OPTIONS

The Company has granted officers, directors and consultants the following share options:

Number of Options	*Exercise Price Per Option*	*Expiry Date*
195,000	$ 0.60	April 15, 2002
153,000	$ 0.60	August 7, 2002

E) PROSPECTUS OFFERING

During 1997, the Company offered for sale a maximum of 8,000 units through a prospectus offering. Each $1,000 unit consisted of 350 Class A shares ($70), 93 Class B flow-through shares ($930) and 50 Class A common share warrants. Each warrant entitles the holder to purchase one Class A share for $1.25 until September 18, 1998.

As a result of the prospectus, 2,682,400 Class A shares and 712,752 Class B shares were issued for total consideration of $7,664,000.

F) SHARE PURCHASE WARRANTS

The Company had issued 383,200 share purchase warrants. Each warrant originally entitled the holder to purchase one Class A share for $1.25 until September 18, 1998. The expiry date was extended to December 18, 1998, however these warrants expired without being exercised. In addition, the Company has issued 153,280 broker warrants. Each broker warrant enables the Agent to purchase one Class A share for $1.00 until October 22, 1999.

5. INCOME TAXES

The income tax expense in the Statement of Operations varies from the amount that would be computed by applying the expected income tax rate of 44.3% to net income. The principal reasons for the difference between such "expected" income tax expense and the amount actually recorded are as follows:

		1998		*1997*
Computed "expected" income tax expense	$	52,054	$	11,120
Non-deductible crown charges		6,743		3,481
Non-deductible depletion		87,441		779
Resource allowance		(47,316)		-
Non-deductible other		2,943		912
	$	101,865	$	16,292

The Company has $288,305 of loss carry forwards which expire in 2004 and tax pools in respect of capital assets of $2,613,482. In addition, the Company has available for deduction against taxable income share issue costs of $457,403. The utilization of these deductions will result in a credit to share capital.

6. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date.

The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure, which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

7. FINANCIAL INSTRUMENTS

The Company's financial instruments that are included in the balance sheet are comprised of cash, accounts receivable and all current liabilities.

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial instruments that are included in the balance sheet approximate their carrying amount due to the short-term maturity of those instruments.

CREDIT RISK

A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

INTEREST RATE RISK

At December 31, 1998, there is no interest rate risk.

CORPORATE INFORMATION

DIRECTORS

Steve Fitzmaurice,*
Chairman of the Board
Calgary, Alberta

Erik DeWiel,
Calgary, Alberta

Randy Deobald,
Calgary, Alberta

John Wright,
Quito, Equador

Thomas Buchanan,*
Calgary, Alberta

Mike Shaikh,*
Calgary, Alberta

OFFICERS

Steve Fitzmaurice, P.Eng.
President, Chief Executive Officer

Erik DeWiel, P.Land
Vice President, Land and Business Development

Randy Deobald, P.Geol.
Vice President, Exploration

Greg Turnbull, L.L.B.
Secretary

**members of the audit committee*

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The Alberta Stock Exchange
Trading Symbols:

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Class B Shares: HWK.B

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